GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1502
ANSWERED ON:04.08.2006
BANKING REFORMS
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Will the Minister of FINANCE be pleased to state:

(a) whether as much as 48 billion US dollar capital can be saved annually by reforming the banking sector in the country ;

(b) if so, the reaction of the Government thereto;

(c) the efforts made/proposed to be made by the Government in bringing in banking reforms in the country ;

(d) whether RBI has also suggested several measures to improve the domestic banking sector in the country; and

(e) if so, the details thereof ?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) and (b) The data-base of the Government/Reserve Bank of India does not generate information in respect of the quantum of amount that can be saved or is saved by reforming the banking sector in the country.

(c) to (e) The thrust of the financial sector reforms in India was to promote a diversified, efficient and comparative financial system with the ultimate objective of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. Since 1991, various reform measures have been introduced in the banking sector in a gradual manner. These include :-

â€" Creation of a conductive policy environment-Measures were aimed at reducing the high levels of statutory pre-emption in the form of reserve requirements, gradual rationalization and liberalization of administered interest rate structure and streamlining the allocation of credit to certain sectors.

â€" Enhancing the competition, which in turn led to the improvement in efficiency and productivity of the system.

â€" The ownership base in the domestic banks has been broad-based.

â€" Introduction of micro-prudential measures with a view to converge with International best practices.

â€" Strengthening of regulation and supervision.

â€" Introduction of measures to ensure integrity of payment and settlement systems.

â€" Strengthening of the legal environment for conductng banking business.

â€" Improvement of transparency and disclosure standards in banks` balance sheet.

â€" Improvement in Corporate Governance in Banks.

â€" Phased implementation of Risk Based Supervision.

â€" Uniform accounting of repo/reverse repo transactions.

â€" Prudential norms for loan classification were further tightened.

â€" Setting-up of Asset Reconstruction Company (ARCIL).

â€" Revised Banking Ombudsmen Scheme has been introduced in January, 2006.

â€" Banks were asked to frame fair practice code based on the broad guidelines issued by RBI,

â€” Banking Code and Standard Board of India was set-up to monitor implementation of fair practice code.

â€” A road-map for Basel-II Implementation in India was issued by RBI. The reform measures have had major impact on the overall efficiency and stability of the banking system in India. The present capital adequancy of Indian banks is comparable to those at international level. There has been a marked improvement in the asset quality with the percentage of gross Non-Performing Assets (NPAs) to gross advances for the banking system reduced from 14.4 per cent in 1998 to 3.48 per cent in March, 2006. The reform measures have also resulted in an improvement in the profitability of banks. The Return on Assets (RoA) of the banks rose from 0.4 per cent in the year 1991 -92 to 0.88 per cent in March, 2006. Considering that globally, the RoA has been in the range of 0.9 to 1.5 per cent for 2004, Indian banks are well placed. The banking sector reforms also emphasized the need to renew the manpower resources and rationalize the requirements by drawing a realistic plan so as to reduce the operating cost and improve profitability.